

# BOARD OF ALDERMEN

ITEM NO. B(1)

## AGENDA ITEM ABSTRACT MEETING DATE: February 23, 2010

**TITLE: Request for Board Approval – Banking Services Contract**

<b>DEPARTMENT: Management Services</b>	<b>PUBLIC HEARING: YES ___ NO <u>x</u></b>
<b>ATTACHMENTS:</b> A. Banking RFP Reviewed by Board on November 17, 2009 B. Resolution C. Agreements with Harrington Bank D. Agreements with BB&T	<b>FOR INFORMATION CONTACT:</b> L. Bingham Roenigk, Management Services

PURPOSE: At the board meeting of February 16, 2010, the Board requested to delay the presentation on the banking services contract recommendation until February 23rd. In addition, staff was requested to attach the banking RFP that the Board reviewed at the November 17, 2009 Board meeting. The purpose of this agenda item is to approve a bank as the official depository for the Town and to authorize the Town Manager to execute all related contracts regarding banking services desired by the Town. Town staff, as a result of the reviewing bid responses, recommends Harrington Bank.

INFORMATION: Town staff, as recommended by the Local Government Commission (LGC), bids out banking services because it ensures that the Town banking needs can be awarded to the financial institution(s) that demonstrate they can handle the Town's business in the most cost-effective manner. The LGC recommends a formal bidding process consistent with the process conducted by staff.

The Town received proposals from six banks, all of which have branches within Orange County. Staff is comfortable that all of the banks have submitted proposals that appear to substantiate the capability to provide the automated banking services desired by the Town and all are declared public depositories by the Local Government Commission. Provided that the banks appear to have equal footing on the ability to provide automated banking services, the criteria used to narrow staff recommendations include the cost of banking services, preference for using a local bank, and the active involvement of the banks in the local community, experience with governmental banking, and references.

The cost of banking services is important for budgeting purposes. All of the banks provided an option for the Town to take advantage of an Earnings Credit Rate to offset the Town's banking fees which require the Town to maintain an average daily balance.

On the first criterion, cost of banking services, the following monthly costs are estimated:

Requirement	BB&T	RBC Bank	Wachovia	SunTrust	Bank of America	Harrington Bank
Fees - per proposal	855.44	385.00	212.43	452.94	1,113.03	543.00
Earnings Credit Rate	1.00%	0.00%	0.50%	0.60%	0.60%	1.00%
31 Day Balance needed for Earnings Credit Rate to offset fees	\$1,008,000.00	\$ 1,000,000.00	\$ 500,238.39	\$ 888,833.87	\$ 2,185,000.00	\$ 640,000.00
Calculated Earnings Credit	856.11	-	212.43	452.94	1,113.45	543.56
Fees Adjusted by Earnings Credit Rate	(0.67)	385.00	(0.00)	0.00	(0.42)	(0.56)

The chart indicates that Harrington Bank and Wachovia Bank provide the most competitive cost rates.

All of the banks offered investment vehicles with current interest rates in addition to the Earnings Credit Rate for the Town to generate revenue that could also technically benefit the Town in offsetting fees. However, given the low interest rates and the fact that interest rates can change at any time and can vary from bank to bank, town staff believes it is more advantageous to pursue a holistic investment strategy that uses a bidding process to procure higher yield investments while maintaining liquidity. Harrington Bank and BB&T offered the highest interest rates available currently on investments.

One comment to note is that BB&T offered to offset banking fees for one year by using either the Earnings Credit Rate and/or by investing the same amount with a guaranteed interest rate of 1% for one year. However, Harrington Bank will commit to an annual percentage yield of 1.25% to the the Town for one year from the date of account inception. In terms of local activity, there are a couple of issues to consider. Ideally, as the Board has indicated, the Town would do business with local banks. Within the banking industry, it is notable that a number of formerly local banks have been bought out or consumed by larger banks. This makes it challenging to define what makes a bank "local." Of all the banks that provided a proposal, Harrington Bank is considered a local community bank, having started its operations in Chapel Hill. BB&T, while it is a sizably large bank, is headquartered in Winston-Salem and is considered a North Carolina Bank. The other banks represent larger banks that have consumed what were considered local or regional banks at one time. For example, SunTrust purchased Central Carolina Bank which was headquartered in Durham, NC. Bank of America was formerly North Carolina National Bank, and Wachovia was recently purchased by Wells Fargo.

All of the banks were requested to comment on their Community Reinvestment Activity (CRA) Rating. BB&T, SunTrust, and Bank of America all have outstanding ratings. Harrington Bank has a rating of satisfactory (CRA rating exam conducted in 2008). Harrington Bank does not have a large footprint when competing with some of the larger banks. They do offer financing services for large and small business loans, including lines of credit, for local businesses within Carrboro and Chapel Hill. They mentioned several local businesses with whom they have banking relationships. RBC Bank and Wachovia did not indicate their ratings but described their activity in the community. All of the banks spent some time discussing their efforts in the community including lending to local nonprofits; providing charitable donations to local organizations; and volunteering efforts.

Town staff, in considering banking services, would ideally prefer a bank that has experience with governmental banking. NC laws have specific regulations for investments and other banking practices that are unique to local government. All of the banks, with the exception of Harrington Bank, have experience with local governments.

Town staff is supportive of Harrington Bank and has found them very responsive to Town concerns. However, there is some risk, that more staff time will be required to ensure due diligence and that the Town runs the risk of incurring unanticipated costs for things that are not currently foreseeable. For example, the bank, in submitting its proposal, offered an arrangement to "sweep" town funds using investment vehicles that are not allowed under the

NC General Statutes. Town staff discussed this with Harrington Bank and they have now offered an alternative that is allowable. Town staff also discussed with bank representatives how they may use the LGC as a resource when drafting contracts or performing regulated responsibilities around local government banking to ensure that no major missteps are made.

Another concern regarding Harrington Bank has been the requirement imposed on the bank by federal banking regulators to bolster its core capital, by adopting stricter lending and management practices and to stop making any new land or speculative construction loans. Town staff discussed this concern with Harrington Bank officials and was informed that they passed the 12/31/09 written agreement deadline and anticipate that it will be removed at their next regulatory audit anticipated for later this year. They are well capitalized at this time.

Using the criteria stated above, town staff narrowed its choices to Harrington Bank and BB&T Bank. Town staff then called the references suggested by both banks and references were stellar. It should be noted that the Town has prior experience with BB&T including working with them on the fire substation financing to make sure we had appropriate language in the somewhat unique lease agreement with UNC that would legally allow for installment financing. Andy Vogel, (IT Manager, in reviewing the technical aspects of file formats required by both banks, is comfortable that both banks will be able to transmit the Town's financial data for direct deposit and positive pay as needed. It is his opinion, that, at most, the Town will need to work with its software vendor, MUNIS, to ensure smooth data transmission and that this work would not be prohibitively time-consuming or expensive.

Staff understands the Board's priority in growing local businesses and is recommending Harrington Bank. There is a concern that more staff time may be devoted to a bank with no prior local government experience. Should any significant events happen that are not currently anticipated or realized, town staff will inform the Board and consider alternatives to pursue.

Once the Board directs staff to execute a banking services contract, staff will move forward with executing banking agreements specific to the bank that is ultimately chosen. Bob Hornik, Town Attorney's Office, will ensure that all contracts are written to the Town's satisfaction.

**FISCAL IMPACT:** The bid proposals show that banking services costs will be less expensive than what is currently paid to Bank of America. However, with Harrington Bank (BB&T as well) not having any branches in Carrboro, some efficiency may be lost with staff having to drive to make deposits. A banking service called remote deposit capture which allows checks to be scanned and treated as cash (vs. depositing checks physically) will be pursued, but town staff will need to consider how to deal with daily deposits and the management of cash deposits. Places that we called for references that used the remote deposit feature still do daily deposits due to cash receipts. Staff anticipates that the transition to a new bank will require several months, meaning the Town will need to extend its services with Bank of America until the conversion is complete. Bank of America has assured town staff that they will work with us if we decide to transition our services to another bank. Sufficient funds exist in the Management Services budget to address banking services and transition costs.

**STAFF RECOMMENDATION:** The Board is requested to select Harrington bank to serve as an official depository and provide core online banking services and hereby directs staff to execute all contracts and agreements required for banking services.